

AR50

# **MERLAND EXPLORATIONS LIMITED**

**50<sup>th.</sup>**  
**year**



PETER W. BELL

## **1976 ANNUAL REPORT**





# ANNUAL REPORT TO DECEMBER 31, 1976

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## HIGHLIGHTS

	1976	1975	1974	1973	1972
<b>PRODUCTION</b>					
GAS — Billions Cubic Feet	9.6	7.3	5.5	1.6	.1
— Millions Cubic Feet Per Day	26.3	20.1	15.1	4.4	.3
OIL — Barrels	42,172	15,770	6,315	430	—
— Barrels Per Day	115.5	43.2	17.3	1.2	—
<b>ACREAGE (000 Acres)</b>					
GROSS	493	487	600	420	162
NET	162	165	236	130	53
<b>DRILLING RECORD</b>					
<b>WELLS DRILLED (Gross)</b>					
OIL	14	11	7	1	—
GAS	61	121	68	82	27
DRY	28	13	11	24	2
<b>PRODUCTIVE WELLS (Cumulative)</b>					
GROSS	600	536	409	240	33
NET	326	290	215	175	15
<b>FINANCIAL \$(000)</b>					
SALES (Net of Royalty)	5,698	2,594	976	189	26
CASH FLOW from Operations	3,481	1,850	582	185	212
NET EARNINGS (Loss)	1,142	587	109	(55)	83
<b>PER SHARE (Cents)</b>					
CASH FLOW from Operations*	69.5	39.8	12.5	4.4	5.1
NET EARNINGS (Loss)	22.7	12.6	2.3	(1.3)	2.0
* Fully Diluted	62.8	35.2			





A. P. MARKIN  
Vice-President, Operations

W. G. FYFE  
Treasurer

R. K. DIXON  
President

N. T. WUDEL

D. A. WESTON  
Geologist

E. L. RICHARDSON  
Controller

## TO THE SHAREHOLDERS:

The year 1976 was a very significant milestone for Merland Explorations Limited in as much as this year we celebrated our Fiftieth Anniversary of the formation of the Company and the Company experienced one of the most significant years of growth in its history.

Merland Explorations Limited was incorporated under a Dominion charter on May 22, 1926, with the name of Merland Oil Company of Canada Limited. The Company's name was changed to Merland Explorations Limited in February 1970.

The Company originally participated in a number of successful petroleum ventures, among them being the development of producing interests in the Turner Valley field, until industry activities stalled in the 1930's. Resuming its petroleum activities, Merland sold its producing properties in Turner Valley in 1951 and by 1955 acquired interests in eleven other producing areas of Alberta and Saskatchewan. In the period to 1966 the Company complemented its petroleum interests with ventures into real estate development. Several attempts were made to expand into mineral exploration. Earnings for the most part were reinvested through the purchase of shares in other natural resource companies. At this time Merland became more of a holding company than an operating company.

In early 1969 the Company committed itself firmly to the expansion of its direct interests in the area of natural resource exploration and development.

The nucleus of a mineral exploration division was established in 1969 with headquarters in Toronto. Shortly thereafter, petroleum operations were renewed and an office was re-opened in Calgary. A number of joint-venture mineral exploration projects were initiated both in Canada and abroad, with Merland as the operator.

The Company participated in several low risk drilling ventures during the following years, the suc-

cess of which enabled Merland to expand progressively into the exploration phase. Several proven gas properties were purchased together with several existing small gas producing companies. By the end of 1973 Merland had become an established natural gas producing and exploration company with many diversified properties. This progressive attitude of the Company continues to the present time.

Merland continued its very aggressive position in the shallow gas areas of Southeastern Alberta during 1976 while at the same time becoming more heavily involved in medium depth gas production in Central Alberta. Merland also continued the exploitation of its crude oil interests in the Taber Area.

Through its wholly owned subsidiary, Merland Resources, Inc., Merland began to participate in the exploration for oil and gas reserves in East Texas and the development of oil and gas reservoirs previously discovered. These efforts have resulted in several significant new discoveries of oil and gas and the enlargement of existing known reservoirs.

During the latter part of 1976 the Grand Saline Rodessa Sand was put on oil production from which a cash flow from this area began.

It is Merland's intention to continue its involvement in the shallow to medium depth gas areas of Alberta, Saskatchewan and British Columbia, and to expand into deeper areas as the opportunities arise.

## PRODUCTION

Merland's average daily gas production during 1976 was 26.3 MMCF as compared with 20.1 MMCF in 1975 representing a 31 % increase. Gas production was restricted to some extent during 1976 due to a delay in the installation of gas processing equipment and connections to Alberta Gas Trunk Line, however at year end gas production was averaging 33.1 MMCF/D.



Oil production during 1976 averaged 116 barrels per day as compared with 43 barrels in 1975, an increase of 170%.

## OUTLOOK

The Company plans to continue its aggressive and dynamic position in 1977 by developing and extending its present producing acreage holdings in Canada. Approximately 45 wells are planned for this purpose in 1977. It is also planned to budget considerably more funds for the purchase of land and commitment drilling in 1977.

In Texas, the year 1977 should see the complete development and the commencement of full scale production operations of the Grand Saline Rodessa Sand Reservoir as well as the sweet gas from the Cotton Valley Formation in the well C. E. Turner #1.

The cash flow from these two projects should be sufficient to finance our United States operations during 1977.

Additional exploration and development drilling may be carried out in East Texas in order to more fully evaluate the present Smackover Formation gas discoveries so that this gas may be put on production as soon as possible. Negotiations are presently being carried out with prospective gas purchasers and these negotiations indicate that a sale of gas from our Smackover gas reservoir may begin in mid-1977.

It is expected that Canadian gas production will once again increase substantially during the year 1977 and this increase in production, combined with escalating natural gas prices, will lead to an increased cash flow from which our Canadian operations will be mainly financed.

Although a minor crisis has developed in the natural gas industry in Western Canada during the past year due to the unavailability of gas sales contracts, Merland is in a position of having adequate gas sales contracts for all of its presently developed gas as well as for additional gas that may be developed in the next two or three years.

The hope that the Province of Alberta would reduce their royalty assessment on low pressure, low volume, high investment gas, such as is being produced in the general Southeastern area of Alberta has not come to pass and the Alberta Government royalties still account for an amount equal to or greater than the net revenue of the producers who have taken the original drilling risk and investment.

There is some encouragement that the selling price of natural gas in Saskatchewan will be increased during 1977. If these price increases materialize and are adequate, an increase in drilling and development activity could result in this Province.

The high selling price and the low royalty rates for gas and oil being produced in the United States has the effect of giving that country a decided advantage in the competition for exploration funds and it is hoped that more exploration opportunities can be found in the United States.

## FINANCIAL

Gross revenues from gas and oil sales were \$9,148,000 for 1976, an increase of 150 percent over 1975, which together with other income of \$493,000 provided a cash flow from operations of \$3,481,000 or 69.5 cents per share and net income of \$1,142,000 or 22.7 cents per share. Thirty-one percent of the increase in gas and oil revenues was attributable to increased production while the remainder resulted from higher prices for gas and oil.

During the year, the Company realized \$864,000 from the sale of its interest in various gas and oil properties resulting in a gain on sale of \$374,000.

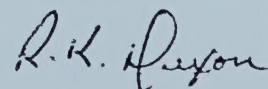
In 1976 exploration and development expenditures amounted to \$7,568,000. About 75 percent of these expenditures were made in Canada and the remainder in the United States. Sixty-eight percent of the budgeted \$8,500,000 exploration and development costs for 1977 are projected to be spent in Canada with the remaining thirty-two percent in the United States. The planned increase in expenditures for 1977 of approximately \$1,000,000 is primarily for a stepped-up land acquisition and exploration program.

## PERSONNEL

It has been my pleasure during 1976 to become associated with Merland Explorations Limited as its President and Chief Operating Officer. I am very pleased with the experience, attitude and dedication of the present staff and I am confident that with continued proper management and guidance Merland will continue its rapid growth in the future.

I would like to thank all of the staff of Merland for their co-operation and efforts during the past year and I am confident that the same attitudes will continue in the future.

Special thanks are due to Mr. Peter Oley, the past president of Merland Explorations Limited, for his dedication and expertise in guiding the Company over the past six years.



President

April 29, 1977  
Calgary, Alberta



# ALBERTA

NORTH BIG BEND

WESTLOCK

EDMONTON

HOLDEN

VIKING

JARROW

HALKIRK

HAMILTON LAKE

CALGARY

BANTRY

HILDA

NORTH  
MEDICINE  
HAT

HORSHAM

CONLAC - VALE

ALDERSON

CECIL

MEDICINE  
HAT

TABER

WINNIFRED

LETHBRIDGE

RED COULEE

CANADIAN  
PRODUCING PROPERTIES

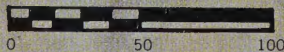


OIL



GAS

## INDEX MAP



SCALE IN MILES

MERLAND EXPLORATIONS LIMITED  
CALGARY — ALBERTA



## OPERATIONS

Merland Explorations Limited and its wholly owned subsidiary, Merland Resources, Inc., presently participate in a large number of oil and gas exploration, development and producing properties. Merland operates most of the properties in Canada which require a very experienced and dedicated staff. The following is a brief resume of the various properties in which Merland participates in both Canada and the United States.



### HALKIRK

Initial production from the existing four wells in the Halkirk area commenced on April 16, 1976. Two wells were drilled in the area in 1976 but will not be brought on production until early 1977. Gas production from the six wells is expected to be approximately 2.5 MMCF/D. Merland's interest in the Halkirk area varies from 50 % to 65 %.



### CONLAC

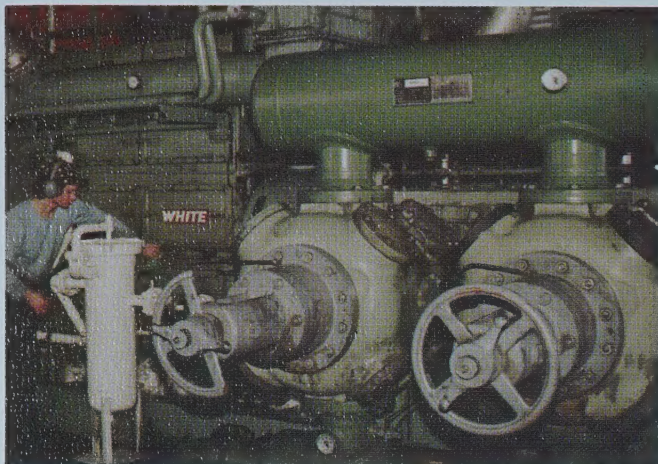
During 1976, Merland's production increased to 4,500 MMCF from 2,800 MMCF in 1975. Twelve shallow gas wells were drilled during 1976 and commenced production in November. The majority of the increase is attributed to remedial stimulations in the Lower Medicine Hat formation in which Merland now has a 50 % interest and higher initial production from the Milk River formation. Five new wells are planned in 1977 to maintain production at this increased level. Also, a third 1,000 horsepower compressor was installed to accommodate the increased sales to TransCanada PipeLines. Merland has adequate gas sales contract capacity to cover the increase.



### VALE

Only one well was drilled in the area in 1976 bringing the total to 124 wells. Total net Merland production for 1976 was 1,500 MMCF compared to approximately 1,000 MMCF in 1975. It is planned to drill an additional 3 wells and conduct remedial work on approximately 20 wells in 1977. Merland net production is expected to increase to over 6 MMCF/D by 1977 year end.





## HORSHAM

A total of 23 wells were on production in 1976 for a total of approximately 750 MMCF compared to 800 MMCF in 1975. The Company has still been unable to negotiate a firm gas price and consequently no drilling was done in 1976. Verbal commitments from the Saskatchewan Government have indicated the gas price will increase by 38% effective November 1, 1976, but to date this has not been confirmed. It is planned to drill two development wells in 1977 subject to the gas price increase. Merland has a 55% interest in the area.



## JARROW

The Jarrow Plant went on stream April 3, 1976, with an initial contract volume of 2 MMCF/D which was immediately increased to 4 MMCF/D. Merland's share was approximately 1.8 MMCF/D. Total production for the year was 400 MMCF. An additional 8 wells were drilled in 1976 with one well abandoned. In early 1977 three additional wells were tied in and an additional 350 horsepower compressor was added to increase production to approximately 7 MMCF/D of which Merland's net share will be approximately 2.6 MMCF/D. Some additional development drilling is planned in 1977.

## NORTH BIG BEND

Gas production commenced from the Big Bend area in August, 1976. Daily production had increased to the contracted volume of 2.5 MMCF/D by the end of the year with Merland's share being 0.6 MMCF/D. There are presently only two wells on production. Additional drilling is planned for late 1977 or early in 1978. The possible tie-in of one of the existing shut-in wells is also being considered.



## CECIL

Crude oil production from the Ronalane area commenced in early 1976 from one well. An additional well was drilled in 1976 which was completed as a salt water disposal well. Two or three additional wells are planned in 1977. Merland's net oil production is presently approximately 20 barrels per day.

## SOUTH ALDERSON

Production commenced in July 1976 at an initial rate of less than 1 MMCF/D from a total of 14 wells. Merland participated in an additional 4 wells in 1976.







### ELKWATER

Production from the Elkwater area in 1976 was approximately 500 MMCF from 39 producing wells. Plans are to pursue remedial work in 1977 to increase the production. Also, in April of 1977, Merland's gas price was increased from approximately 63¢ per mcf to the prevailing gas price of approximately \$1.20 per mcf. The original contract will then be transferred to a 3 MMCF/D contract with Trans-Canada PipeLines. Merland's net interest in the area is 50%.

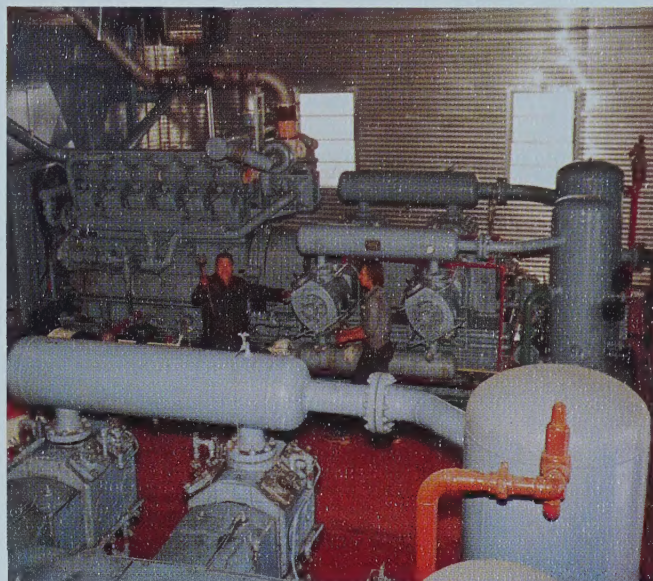


### TABER

A total of 13 oil wells were drilled in 1976 with 8 wells cased. The total number of producing wells in the Taber area is presently 16 with oil production averaging 600 barrels per day. An additional 6 to 10 wells are planned in 1977. Waterflood studies are continuing but initial reservoir pressures in both of the Taber pools indicate that an active pressure maintenance may already exist. If so, allowables may be increased from 33% to 50%.

### NORTH MEDICINE HAT

A total of 4 wells were drilled in the North Medicine Hat area in 1976. Production commenced in June 1976 at approximately 3 MMCF/D with Merland's net interest at 2.7 MMCF/D. At the end of 1976 production was at 3.5 MMCF/D from 6 wells. A total of 3,000 MMCF was produced in 1976.



### RED COULEE

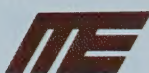
Merland's net oil production in 1976 averaged approximately 25 barrels of oil per day from 7 wells. No additional drilling is planned in 1977 but remedial work to increase production and waterflood modifications are being contemplated.

### WEST VIKING

Total net Merland production in 1976 was 100 MMCF. The majority of the property was sold in September 1976. Remaining acreage in the area, which includes four shut-in gas wells, is expected to be on production in late 1977. An additional 5 wells are planned in late 1977. Merland's interest in this area is 20%.







## HOLDEN

In the Holden area of Central East Alberta, Merland Explorations Limited, as a non-operator, participated in the drilling of 34 wells. With 21 of these wells being successful, gas production increased to approximately 7.5 MMCF/D, of which Merland's share is 1.5 MMCF/D. It is planned to drill 3 or 4 additional wells in 1977. Production in this area comes mainly from the Viking Formation. At the end of 1976, 29 wells were on production and approximately 20 wells were shut-in.



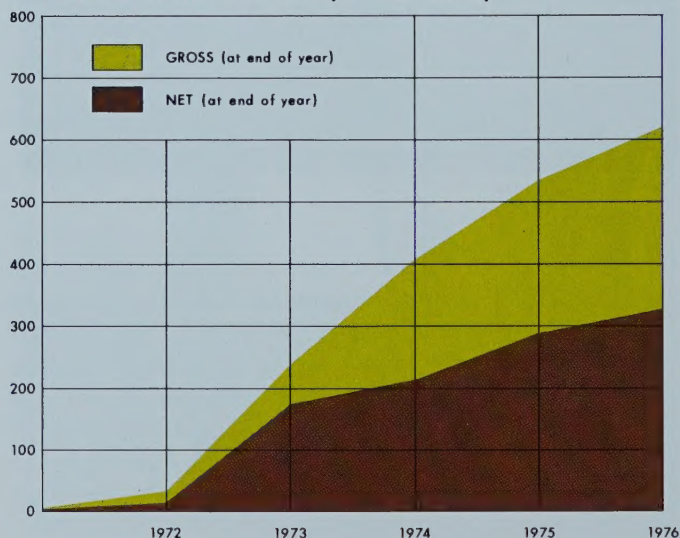
## WESTLOCK

The Westlock plant came on stream in August 1976, however, due to hydrocarbon dew point problems, only 60 MMCF of gas were produced until the end of the year. With the dew point equipment installed by February 17, 1977, plant production was increased to 5 MMCF/D. Merland net is approximately 1 MMCF/D. With the sour gas facilities expected to be on line in May 1977, Merland's net production should initially increase to 2 MMCF/D. An additional 2 or 3 wells are planned in the area in late 1977. There were 11 producing gas wells in this area at the end of 1976. Contract volume in the area is 7 MMCF/D with an increase to 10 MMSCF/D expected November 1, 1977.

## BANTRY

Net Merland production for the year 1976 was approximately 1,000 MMCF in the Bantry area. Merland Explorations Limited as Operator now owns approximately 30% interest in the overall project. Two wells were drilled in the area in 1976 and two previously classified oil wells were converted to Bow Island gas wells with extremely good success. It is our intention to pursue the Bow Island formation in 1977. Also, in early 1977 Merland's direct oxidation gas sweetening plant is expected to be on line. Initial production from the slightly sour 6-30-19-3 gas well is expected to be 4 MMCF/D with Merland's share being approximately 1 MMCF/D. Using new well completion techniques, which were developed in our other shallow gas areas, it is our intention also in 1977 to perform remedial work on some of the shallow gas production. Increases as high as 200% have resulted in other areas. Contracted capacity in the Bantry area is now 14 MMCF/D.

## PRODUCING WELLS (OIL & GAS)





# MERLAND EXPLORATIONS LIMITED

(Net)

## CRUDE OIL AND NATURAL GAS SALES

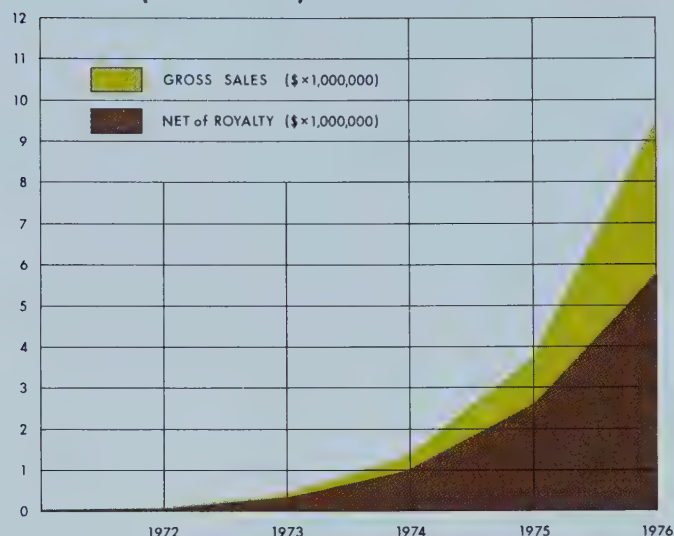
Project	1976	1975
<b>NATURAL GAS (MMCF)</b>		
Bantry .....	928,298	1,668,749*
Conlac et al (GBI) .....	4,542,195	2,857,875
Vale .....	1,508,645	988,012
Horsham .....	748,574	793,148
Halkirk .....	179,461	—
South Alderson .....	52,714	—
North Big Bend .....	45,856	—
North Medicine Hat ...	294,378	—
Westlock .....	64,947	—
Jarrow .....	415,985	—
Holden .....	281,815	234,756
**West Viking Unit .....	109,279	177,239
Elkwater .....	426,152	621,896
Others .....	4,194	—
<b>TOTAL .....</b>	<b>9,602,493</b>	<b>7,341,675</b>

<b>CRUDE OIL (Bbls)</b>		
Cecil .....	6,587	—
Red Coulee .....	8,340	15,187
Taber .....	24,715	
East Texas - Canus ....	2,530	—
Others .....	—	583
<b>TOTAL .....</b>	<b>42,172</b>	<b>15,770</b>

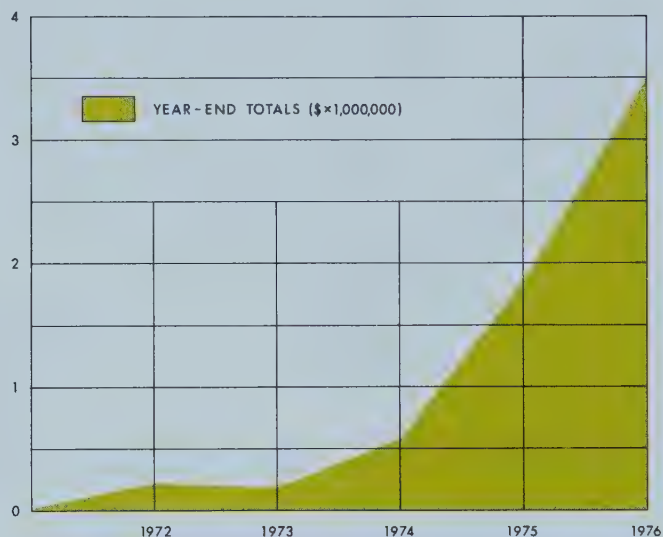
\*20% W. I. sold in 1975

\*\*Property sold during 1976.

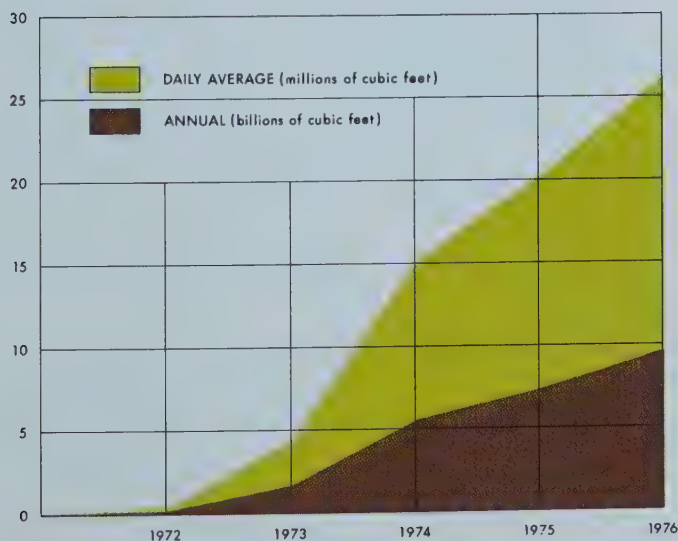
## SALES (OIL & GAS)



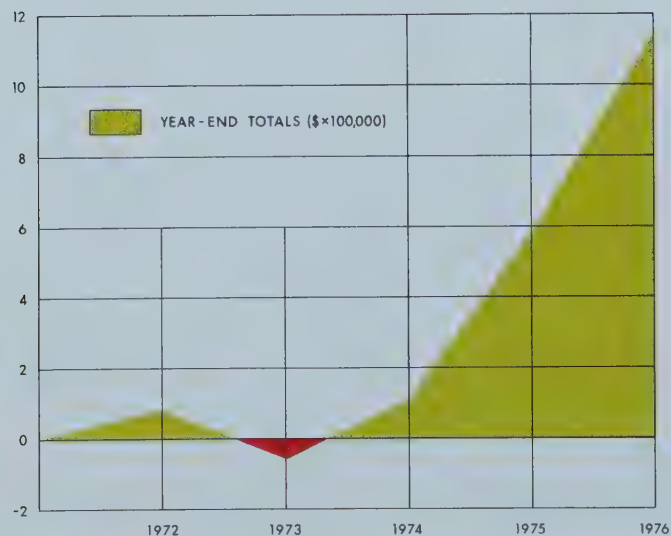
## CASH FLOW FROM OPERATIONS



## GAS PRODUCTION



## NET INCOME AFTER TAXES







## EAST TEXAS

### GRAND SALINE, FRUITVALE, VAN DOME, GRIT, EUSTACE PROSPECTS

Four semi-development wells were drilled and completed in 1976 in the Grand Saline Prospect. Three wells, the #2 C.H. Admire, the #1 Marilyn Richey, and the #2 F.B. Smith, were completed in the Rodessa oil and gas sandstones with average initial potentials of 200 BOPD and 0.5 MMCF/D per well. The #1 Cannon, a one mile stepout, was dry and abandoned. Six additional development wells are planned for 1977, one of which was spudded in 1976 and successfully completed in early 1977. Gas sales commenced in March 1977 at a gas price of \$1.65 per MCF with a substantial upward BTU adjustment. Merland Resources, Inc., a wholly owned subsidiary, owns a 7.5% working interest in the Rodessa-Grand Saline Prospect.



The #1 F.B. Smith was spudded as a wildcat Smackover test in the Grand Saline Prospect. The well was dry and abandoned. Merland's interest was approximately 20%.

In the Fruitvale Prospect, in which the Company owns approximately 2% working interest, one deep Smackover test, the #1 Elliot, was spudded. Good Rodessa oil and gas production was discovered on the way down to the proposed depth of approximately 14,000 feet. The Smackover formation well was initially abandoned and then reopened and completed as a Smackover gas and condensate well. An absolute open flow test on this well resulted in a gas flow of 12 MMCF/D with 10 barrels per MMCF of condensate. This gas has a medium BTU value and is slightly sour. Two or three development wells are planned for the Rodessa in 1977.

In the Grit Prospect, the #1 M.E. Jones was spudded as a Smackover test in late 1976 and subsequently drilled and abandoned. Merland's interest was approximately 2.5%.

Another deep Smackover test, the #1 Rowan, was spudded in November 1976. Merland has a 2.5% interest in this Van Dome Prospect.

Merland Resources, Inc. purchased a 12.5% working interest in the Eustace Prospect where the #1 A.L. Smith was cased in late 1975 as a Smackover gas well with a very high H<sub>2</sub>S content.

#### MITCHELL CREEK, NORTH SIMSBORO PROSPECTS

A 23.5% working interest was purchased in the #1 Mayes cased Smackover gas well in the Mitchell Creek Prospect. This well was given an absolute open flow potential of 127 MMCF/D of low BTU sour gas. The BTU value of this gas is approximately 650 and hydrogen sulfide is approximately 3.0%. Reservoir limit testing is to commence in early 1977 to substantiate adequate reserves for a gas plant installation and marketing the gas.

In late 1976 the #1 C.E. Turner was spudded as a Smackover test in the North Simsboro Prospect. On December 8, 1976, the well blew out from the Cotton Valley limestone formation. Controlled test rates of over 9 MMCF/D of sweet, high BTU gas were obtained. This well will be completed and tested in early 1977 and hopefully put on production in 1977.

## LAND HOLDINGS

At December 31, 1976, Merland Explorations Limited was participating in a total of 485,749 gross acres for a net acreage holding of 160,728 acres. This acreage is mostly in Alberta with a small amount in Saskatchewan.

Merland Resources, Inc. held a gross and net



acreage of 12,671 and 2,474 acres in the State of Texas as of December 31, 1976.

Merland is expecting to carry out an active program to increase its acreage position, both in Western Canada and the United States during the forth coming year.

## OIL AND GAS RESERVES

During the year 1976, Merland had all of its oil and gas properties evaluated by qualified impartial consultants. These evaluations have resulted in the following:

Net remaining Proven Sales Gas Reserves	
After Royalties (MMCF) .....	92,843
Net remaining Proven Crude Oil	
Reserves After Royalties (Bbls) .....	1,180,000
Consideration of Probable crude oil and natural gas will increase these volumes by approximately 30%.	

The reserves volumes quoted above do not include crude oil and gas reserves presently being developed in the United States, which are estimated to be approximately 20,000 MMCF of gas, including low BTU and sour gas, and 300,000 barrels of crude oil and condensate.







## **FINANCIAL REPORTS**

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF  
EARNINGS AND RETAINED EARNINGS

CONSOLIDATED STATEMENT OF CHANGES  
IN FINANCIAL POSITION

AUDITOR'S REPORT

NOTES TO CONSOLIDATED FINANCIAL  
STATEMENTS



## CONSOLIDATED BALANCE SHEET

December 31, 1976  
(with comparative figures for 1975)

### Assets

	<u>1976</u>	<u>1975</u>
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 28,999	\$ 100,065
Accounts receivable .....	3,811,274	2,453,367
Mortgage receivable .....	100,000	—
Inventory of materials and supplies, at cost .....	209,835	77,745
Prepaid expenses and other .....	50,534	74,258
Total current assets .....	4,200,642	2,705,435
<b>INVESTMENTS:</b>		
Shares of other companies, at cost less amounts written off .....	8,997	50,000
Mortgage receivable .....	—	100,000
	8,997	150,000
<b>PROPERTY, PLANT AND EQUIPMENT — AT COST:</b>		
Petroleum and natural gas interests .....	17,846,709	13,150,857
Less accumulated depletion .....	(1,744,133)	(755,293)
Production equipment, gas plants and facilities .....	6,721,397	4,442,898
Less accumulated depreciation .....	(831,871)	(434,840)
	21,992,102	16,403,622
<b>OTHER ASSETS:</b>		
Debenture issue costs, less amortization .....	—	59,538
Organization and share issue expense .....	134,819	134,819
	134,819	194,357
	<u>\$26,336,560</u>	<u>\$19,453,414</u>

See accompanying notes to consolidated financial statements.



## Liabilities

	<u>1976</u>	<u>1975</u>
CURRENT LIABILITIES:		
Bank demand loan .....	\$ 1,000,000	—
Accounts payable and accrued expenses .....	2,729,014	\$ 3,201,732
Debenture interest payable .....	—	79,188
Current portion of long-term debt (Note 2) .....	<u>2,285,760</u>	<u>1,698,000</u>
Total Current liabilities .....	6,014,774	4,978,920
PREPAYMENTS ON FUTURE NATURAL GAS DELIVERIES .....	71,296	163,590
LONG-TERM DEBT (Note 2) .....	14,098,400	10,802,000
DEFERRED INCOME TAXES .....	1,594,839	846,450

## Shareholders' Equity:

Capital stock (Note 3):		
Authorized — 7,500,000 shares without nominal or par value. Issued and fully paid — 5,072,800 shares (1975 - 4,662,500) .....	3,817,532	3,064,532
Retained earnings (deficit) .....	<u>739,719</u>	<u>(402,078)</u>
	4,557,251	2,662,454

Commitments (Note 5)

On behalf of the Board:



, Director

\$26,336,560

\$19,453,414



, Director



## CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1976  
(with comparative figures for 1975)

	<u>1976</u>	<u>1975</u>
REVENUE:		
Sales of gas and oil production .....	\$ 9,147,939	\$ 3,660,070
Less royalties .....	<u>3,450,313</u>	<u>1,066,435</u>
	5,697,626	2,593,635
Gain on sale of petroleum and natural gas interests .....	374,423	1,044,008
Interest and other .....	<u>119,032</u>	<u>176,520</u>
	<u>6,191,081</u>	<u>3,814,163</u>
COSTS AND EXPENSES:		
Production — gas and oil .....	1,452,531	948,472
General and administrative .....	810,599	364,250
Interest on long-term debt .....	1,152,883	825,946
Unproductive exploration and development .....	—	173,811
Depletion .....	1,015,520	441,476
Depreciation .....	<u>473,238</u>	<u>225,562</u>
	<u>4,904,771</u>	<u>2,979,517</u>
EARNINGS BEFORE INCOME TAXES .....	1,286,310	834,646
Income taxes:		
Current .....	11,200	11,318
Deferred .....	748,389	413,800
Alberta royalty tax credit .....	<u>(615,076)</u>	<u>(177,666)</u>
	<u>144,513</u>	<u>247,452</u>
NET EARNINGS .....	1,141,797	587,194
DEFICIT AT BEGINNING OF YEAR .....	<u>402,078</u>	<u>989,272</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR .....	<u>\$ 739,719</u>	<u>\$ (402,078)</u>
EARNINGS PER SHARE (Notes 3 and 4) .....	<u>22.7¢</u>	<u>12.6¢</u>

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1976  
(with comparative figures for 1975)

	<u>1976</u>	<u>1975</u>
<b>SOURCE OF WORKING CAPITAL:</b>		
Working capital from operations .....	\$ 3,480,583	\$ 1,849,526
Mortgage receivable .....	100,000	—
Long-term bank loan .....	5,662,240	6,456,400
Issue of capital stock .....	753,000	25,000
Sale of property, plant and equipment .....	489,443	1,170,331
	<u>10,485,266</u>	<u>9,501,257</u>
<b>APPLICATION OF WORKING CAPITAL:</b>		
Property, plant and equipment .....	7,567,779	5,914,008
Long-term bank loan .....	1,948,340	3,831,700
Conversion of income debentures to capital stock .....	417,500	—
Reduction of prepayments on future natural gas deliveries .....	92,294	—
	<u>10,025,913</u>	<u>9,745,708</u>
DECREASE (INCREASE) IN WORKING CAPITAL DEFICIENCY .....	459,353	(244,451)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR .....	2,273,485	2,029,034
WORKING CAPITAL DEFICIENCY AT END OF YEAR .....	<u>\$ 1,814,132</u>	<u>\$ 2,273,485</u>

See accompanying notes to consolidated financial statements.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Merland Explorations Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada  
March 29, 1977

*Peat, Marwick, Mitchell & Co.*  
Chartered Accountants



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976

### 1. Significant Accounting policies:

#### (a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

#### (b) Petroleum and natural gas interests:

The costs of acquiring interests in proven and unproven petroleum and natural gas properties, and the related costs of development, including interest, are capitalized on an area basis. Depletion and depreciation are provided on property costs, including costs of development of productive wells, on the unit of production method based on the related proven reserves of petroleum and natural gas as estimated by independent or employee engineers. The costs of non-productive areas are charged to expense when properties are abandoned or surrendered.

#### (c) Income taxes:

The Company follows the tax allocation method of accounting for all timing differences between taxable income and recorded income. Under this method, provision for deferred income taxes is made on the excess of deductions for income tax purposes over the related depletion, depreciation and other charges recorded in the financial statements.

### 2. Long-term debt:

	<u>1976</u>	<u>1975</u>
Bank loan .....	\$14,301,660	\$10,000,000
7 % convertible income debentures, Series A, due October 1, 1983 .....	<u>2,082,500</u>	<u>2,500,000</u>
	16,384,160	12,500,000
Less current portion of bank loan included in current liabilities .....	<u>2,285,760</u>	<u>1,698,000</u>
	<u>\$14,098,400</u>	<u>\$10,802,000</u>

The bank loan bears interest at 1 ¼ % above bank prime rate and is secured by assignments covering the Company's interest in various oil and gas properties together with a specific assignment of production proceeds on the properties pledged.

The 7 % convertible income debentures were issued on October 4, 1973 pursuant to a Trust Indenture. No deduction is allowed under the Income Tax Act for interest expense related to the 7 % convertible income debentures in the amount of \$66,045 (1975 — \$166,688). Subsequent to December 31, 1976 all of the outstanding 7 % convertible income debentures were converted into capital stock as set out in Note 3.



### **3. Capital stock:**

Options in connection with 260,000 shares (180,000 to directors or officers) were exercised at prices ranging from \$1.25 to \$1.80 per share for an aggregate cash consideration of \$335,500.

Subsequent to the aforementioned exercise of stock options, options to acquire 20,000 shares were granted at a price of \$3.20 per share exercisable up to June 14, 1979 and were outstanding at December 31, 1976. None of these options were granted to officers or directors.

As provided in the Trust Indenture \$417,500 principal amount of the 7% convertible income debentures were converted during the year into 150,300 shares at a price of \$2.78 per share.

Subsequent to December 31, 1976 all of the outstanding 7% convertible income debentures in the aggregate principal amount of \$2,082,500 were converted into 749,700 shares of the Company at a price of \$2.78 per share.

Pro-forma earnings per share, assuming the conversion of these debentures into common stock as at January 1, 1976, would amount to 20.6 cents per share.

Subsequent to December 31, 1976 the Company ratified an agreement pursuant to which 80,000 shares will be issued to a senior officer at a price of \$2.65 per share for an aggregate cash consideration of \$212,000.

Following ratification of the above agreement which is subject to approval by regulatory authority, a subsidiary company advanced an amount of \$212,000 to the officer for the purchase of the shares which when issued, will be held in escrow as collateral security for the due payment and discharge of the amount advanced.

### **4. Earnings per share:**

The exercise of outstanding share options would have no dilutive effect on earnings per share.

### **5. Commitments:**

In addition to other commitments incurred in normal exploration activities, the Company is committed to completing an exploratory programme in the amount of US \$2,400,000. To December 31, 1976, \$800,000 had been expended and of the remaining \$1,600,000, \$900,000 will be expended in 1977.

### **6. Statutory information:**

The Company has ten directors and six officers, two of whom are directors. During the year ended December 31, 1976, the aggregate remuneration paid to officers for their services was \$187,518 (1975 - \$136,805 seven officers) and the aggregate remuneration paid to directors for their services was \$23,100 (1975 - \$9,200 nine directors).

### **7. Anti-Inflation Act:**

The Company is subject to the dividend restrictions of the Anti-Inflation Act.



**HEAD OFFICE**

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736 Eighth Avenue S.W.,  
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Telephone — (403) 269-2511

**SUBSIDIARIES**

Amerco Investments Limited  
Merland Resources, Inc.  
Northwest Oils Limited  
Parquet Flooring Company Limited

**AUDITORS**

Peat, Marwick, Mitchell & Co.

**BANKERS**

The Royal Bank of Canada

**REGISTRAR AND TRANSFER AGENT**

Guaranty Trust Company of Canada  
Calgary, Alberta  
Toronto, Ontario  
Vancouver, B.C.

**DIRECTORS**

Robert K. Dixon, Calgary, Alberta  
George Gathercole, Toronto, Ontario  
Robert Law, Q.C., Toronto, Ontario  
Brian D. Marshall, Toronto, Ontario  
William T. Mason, Freelon, Ontario  
Wilmot L. Matthews, Toronto, Ontario  
William O. Parlee, Q.C., Edmonton, Alberta  
Harry J. Richardson, Alton, Ontario  
George T. Smith, Toronto, Ontario  
Donald R. Watt, Toronto, Ontario

**OFFICERS**

Robert K. Dixon, President  
Allan P. Markin, Vice-President - Operations  
William G. Fyfe, Treasurer  
Robert Law, Q.C., Secretary  
E. L. Richardson, Controller

**SENIOR PERSONNEL**

Leonard D. Beasley, Production Manager  
George N. Betts, Chief Landman  
Garry R. Maaskant, Reservoir Engineer  
Douglas A. Weston, Geologist

**STOCK LISTING**

The Toronto Stock Exchange  
(Symbol MOC)

The Annual Meeting of the Shareholders will be held  
on June 27, 1977, in the Rideau Room, Calgary Inn,  
Calgary, Alberta, at 9:00 a.m.











# Merland Explorations Limited

AND SUBSIDIARIES

AR50

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1976  
(with comparative figures for 1975  
(Unaudited))

	<u>1976</u>	<u>1975</u>
<b>SOURCE OF WORKING CAPITAL:</b>		
Working capital from operations . . . .	\$ 967,852	\$ 255,994
Long-term bank loans . .	3,112,240	1,269,100
Issue of capital stock . .	335,500	—
Sale of equipment . . . .	99,969	—
	<u>4,515,561</u>	<u>1,525,094</u>
<b>APPLICATION OF WORKING CAPITAL:</b>		
Property, plant and equipment . . . . .	2,479,231	1,687,551
Long-term bank loans . .	805,460	—
	<u>3,284,691</u>	<u>1,687,551</u>
Increase (Decrease) in Working Capital . . . .	1,230,870	(162,457)
Working Capital at Beginning of Period . . .	<u>(2,273,485)</u>	<u>(2,029,034)</u>
Working Capital at End of Period . . . . .	\$ <u>(1,042,615)</u>	\$ <u>(2,191,491)</u>

*CanCorp*

Merland  
Explorations  
Limited

Interim Report  
SIX MONTHS ENDED  
JUNE 30th, 1976



# TO THE SHAREHOLDERS:

Gross revenue from sales of oil and gas production was \$3,462,641 for the first six months of 1976. This is an increase of 125% over last years \$1,523,392.

Pretax earnings from oil and gas production and interest were \$233,744 as compared to \$14,110 in 1975. Actual earnings for the period were \$342,133, which includes a gain of \$108,389 on sale of equipment. Net earnings for the period were \$326,533 or 6.5¢/share, which compares with a loss of 0.2¢/share last year.

The Company's gas production rate has increased from 20 mmdf/day at the first of the year to a present rate of 30.5 mmcf/day and is expected to increase further towards the end of the year when Westlock and Big Bend plants go on stream and when additional compression now being installed at the Conlac plant and additional wells in the Medicine Hat area go into operation.

The Company's oil production has also been increasing and is now at 140 BOD. This rate is expected to increase substantially by year end as additional wells now being drilled in the Taber area go on production and as more Rodessa wells in the North Grand Saline Field in East Texas are drilled and placed on production.

The above noted increasing production rates for gas and oil and increased prices effective July 1, 1976 will have a compounding effect on earnings for the last half of the year.

This year the Company has participated in 47 wells, 38 of which were gas wells, 4 were oil wells and 5 were dry holes, a success ratio of 89.4%.

Because of the success recorded to date in the East Texas operation, the Company is planning to intensify its exploration effort in this direction. It is presently drilling its "Grit" prospect, which lies about five miles northeast of the Admire #1, Smackover and Rodessa discovery. This well is part of the original Canus program and Merland has 10% of this well. Merland is also participating with Canus in another Smackover test on the flank of the huge Van Dome. This project is about 30 miles southeast of the North Grand Saline discovery. Merland's interest in this test is 2%. Other projects are expected to be announced in the near future.

The shareholders will be happy to note that the Company's deficit position has been reduced to \$75,545 at the end of June 1976. It is expected that the Company will be in a surplus position starting in August 1976 for the first time in its history, which goes back to 1927.

We are looking forward to the Company's continuing rapid growth.

August 16, 1976

PETER M. OLEY  
President

# Merland Explorations Limited

AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

For the Six Months Ended June 30, 1976  
(with comparative figures for 1975)  
(Unaudited)

REVENUE:	1976	1975
Sales of gas and oil production . . . . .	\$ 3,462,641	\$ 1,523,392
Less royalties . . . . .	<u>1,330,442</u>	<u>330,019</u>
	2,132,199	1,193,373
Gain on sale of equipment . . . . .	108,389	303
Interest and other . . . . .	<u>42,218</u>	<u>47,609</u>
	<u>2,282,806</u>	<u>1,241,285</u>
EXPENSES:		
Production - gas and oil . . . . .	587,304	368,385
General and administrative . . . . .	314,554	165,872
Interest on long-term debt . . . . .	651,337	446,834
Depletion . . . . .	268,008	144,724
Depreciation . . . . .	<u>119,470</u>	<u>101,057</u>
	<u>1,940,673</u>	<u>1,226,872</u>
Earnings before Income Taxes . . . . .	342,133	14,413
Income Taxes:		
Current . . . . .	5,600	4,200
Deferred . . . . .	250,000	21,600
Alberta royalty tax credit . . . . .	<u>(240,000)</u>	<u>(50,000)</u>
	<u>15,600</u>	<u>(24,200)</u>
Net Earnings for the Period . . . . .	326,533	38,613
Deficit at Beginning of Period . . . . .	<u>402,078</u>	<u>989,272</u>
Deficit at End of Period . . . . .	<u>\$ 75,545</u>	<u>\$ 950,659</u>
Earnings Per Share:		
(Based on weighted average number of shares outstanding)		
Earnings (Loss) for the Period . . . . .	<u>\$ .065</u>	<u>\$ (.002)</u>